



The Three Types of Beneficiaries and their Distribution Mandates

Non-Designated Beneficiaries

These include beneficiaries such as estates, charities, or trusts that don't qualify as see-through trusts.

- **Death Before RBD**

All funds must be distributed by December 31 of the year marking the fifth anniversary of the participant's death. Known as "the Five-Year Rule," no annual distributions are required.¹

- **Death After RBD**

Distributions are based on the deceased participant's fixed life² expectancy, calculated in the calendar year of their death.³

Designated Beneficiaries

These are individuals named as beneficiaries by the participant.

- **Death Before RBD:**

- Annual RMDs: None required
- 10-Year Rule: All funds must be distributed by December 31 of the year marking the tenth anniversary of the participant's death.⁴

- **Death After RBD:**

- Annual RMDs: For traditional retirement accounts, annual distributions must begin in the year after the participant's death.⁵ The required annual distributions are based on the longer of the designated beneficiary's fixed life expectancy or the deceased participant's fixed life expectancy, calculated using the participant's age at death.⁶ Annual distributions are not required from inherited Roth accounts.⁷
- 10-Year Rule: For both traditional and Roth accounts, all funds must be distributed by December 31 of the year marking the tenth anniversary of the participant's death.⁸

Eligible Designated Beneficiaries

These beneficiaries can use the lifetime payout method or, if the plan permits, choose the 10-year rule if the participant passed away before their RBD.⁹ Eligible designated beneficiaries include:

- The surviving spouse of the participant.
- A participant's child who has not yet reached the age of majority (21).
- Disabled individuals.
- Chronically ill individuals.
- Individuals not more than ten years younger than the participant.

Special Rules for Minor Children of a Participant Child

A minor child of the participant must take annual minimum distributions based on their fixed life expectancy until they turn 21.¹⁰ After reaching 21, the 10-year rule applies, requiring the entire account to be distributed within ten years (by the year the child turns 31). If the participant dies before their RBD, the child is not obligated to take annual RMDs during the ten-year period. However, if the participant dies after their RBD, annual RMDs are necessary during the ten-year period for non-Roth accounts. Annual distributions are required from Roth accounts until the child turns 21 but are not necessary during the 10-year period that follows.

Special Rules for Surviving Spouses

In addition to being an eligible designated beneficiary, a surviving spouse can treat the inherited IRA as their own and delay RMDs until their own RBD.¹¹

Endnotes

- 1** Treas. Reg. § 1.401(a)(9)-3(c)(2)
- 2** “Fixed life expectancy” means the life expectancy is calculated as a fixed term of years. Annual RMDs for a nonspouse beneficiary is computed (starting the year after the year of the participant’s death) by dividing the prior year end account balance by the life expectancy factor for the beneficiary’s age on his/her birthday in that year after the participant’s death, and repeating the process annually, reducing the divisor by one each year until the factor drops to one or below. Treas. Reg. § 1.401(a)(9)-3(c)(4) and Treas. Reg. § 1.401(a)(9)-5(d)(3)(iii).
- 3** Treas. Reg. § 1.401(a)(9)-5(d)(1)(iii), (3)(ii)
- 4** Treas. Reg. § 1.401(a)(9)-3(c)(3)
- 5** Treas. Reg. § 1.401(a)(9)-3(c)(4)
- 6** Treas. Reg. § 1.401(a)(9)-5(d)(1)(ii)
- 7** Treas. Reg. § 1.401(a)(9)-3(a)(2)
- 8** Treas. Reg. § 1.401(a)(9)-5(e)
- 9** The retirement plan may require that the 10-year rule “will apply” to some or all Eligible Designated Beneficiaries in place of the life expectancy payout. Treas. Reg. § 1.401(a)(9)-3(c)(5)(ii). The retirement plan may permit a participant who has an Eligible Designated Beneficiaries to elect whether the 10-year rule or the life expectancy payout will apply to such Eligible Designated Beneficiaries. Treas. Reg. § 1.401(a)(9)-3(c)(5)(iii)
- 10** Treas. Reg. § 1.401(a)(9)-4(e)(3)
- 11** Reg. § 1.408-8(d)(1)(ii).

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